

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF MCCREARY COUNTY WATER)	
DISTRICT, MCCREARY COUNTY, KENTUCKY, (1) FOR A)	
CERTIFICATE OF PUBLIC CONVENIENCE AND)	CASE NO.
NECESSITY AUTHORIZING CONSTRUCTION OF MAJOR)	96-589
ADDITIONS AND IMPROVEMENTS TO ITS WATER)	
DISTRIBUTION SYSTEM; AND (2) SEEKING APPROVAL OF)	
THE ISSUANCE OF CERTAIN SECURITIES)	

O R D E R

On December 9, 1996, McCreary County Water District ("McCreary Water") submitted an application for a Certificate of Public Convenience and Necessity to construct a \$1,417,786 waterworks improvement project and for approval of its plan of financing for this project. McCreary Water's application was made pursuant to KRS 278.023, which requires the Commission to accept agreements between water utilities and the U.S. Department of Agriculture or the U.S. Department of Housing and Urban Development and to issue the necessary orders to implement the terms of such agreements within 30 days of satisfactory completion of the minimum filing requirements. While minimum filing requirements were met in this case on December 19, 1996, during its review of the application Commission Staff noted that McCreary Water's application did not correspond with its agreement with the U.S. Department of Agriculture's Rural Development ("RD"),¹ as contained in RD's Letter of Conditions dated August 7, 1995. Under KRS 278.023, the

¹ RD was formerly known as the Rural Economic and Community Development Service.

Commission is required to approve agreements between a utility and a federal agency as written.² Anything included in an application filed pursuant to KRS 278.023 which is beyond the scope of such agreements must be addressed as a separate matter by the Commission.

On January 13, 1997, McCreary Water amended its application requesting the Commission's approval of only the financing and construction as contained in the RD's Letter of Conditions. Attachment 1. McCreary Water would seek the Commission's approval of the additional construction contained in its initial application at a later date. However, on January 14, 1997, McCreary Water submitted to the Commission Amendment No. 1 to the RD's Letter of Conditions dated December 10, 1996. Attachment 2. This amendment reflects an increase in funding from the Department of Housing and Urban Development ("HUD") Community Development Block Grant ("CDBG") and increased construction costs. The amendment was issued by the RD "contingent upon a firm commitment being in effect prior to advertising for construction bids for the HUD Grant." Based on the letter filed by McCreary Water on January 13, 1997, this contingency has not been met, so Amendment No. 1 has not gone into effect. Therefore, as the RD's Letter of Conditions of August 7, 1995, remains unchanged, McCreary Water seeks a Certificate of Public Convenience and Necessity to construct a \$1,134,000 waterworks improvement project and for approval of its plan of financing for this project. This project

² "The commission shall review the project and the agreement, may recommend changes to the utility and the federal agency, but shall not modify or reject any portion of the agreement on its own authority. The commission shall issue a certificate of necessity and convenience and such other orders as may be required to implement the terms of the agreement no later than thirty (30) days after filing." KRS 278.023(3).

will provide service to 120 additional customers. Project funding includes a \$390,000 bond issue to be purchased pursuant to an agreement with RD, a \$374,000 grant from RD, a \$360,000 CDBG from HUD, and a \$10,000 cash contribution from McCreary Water. The additional CDBG funds addressed in Amendment No. 1, as well as any additional construction resulting therefrom, is not being considered by the Commission in this Order. Such matters may be addressed at a later date once Amendment No. 1 becomes effective.

As KRS 278.023 does not grant the Commission any discretionary authority to modify or reject any portion of the agreement between McCreary Water and RD,

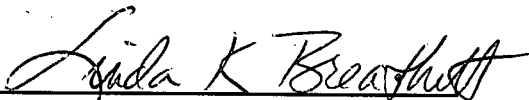
IT IS THEREFORE ORDERED that:


1. McCreary Water is granted a Certificate of Public Convenience and Necessity for the proposed construction project.
2. McCreary Water's proposed plan of financing with RD and HUD is accepted.
3. McCreary Water is authorized to issue bonds not to exceed \$390,000.
4. McCreary Water shall file a copy of the "as-built" drawings and a certified statement that the construction has been satisfactorily completed in accordance with the contract plans and specifications within 60 days of the substantial completion of the construction certificated herein.
5. McCreary Water shall monitor the adequacies of the expanded water distribution system after construction. If the level of service is inadequate or declining or the pressure to any customer falls outside the requirements of 807 KAR 5:066, Section 5(1), McCreary Water shall take immediate action to bring the system in compliance with Commission regulations.

Nothing contained herein shall be deemed a warranty of the Commonwealth of Kentucky, or any agency thereof, of the financing herein accepted.

Done at Frankfort, Kentucky, this 14th day of January, 1997.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director

LAW OFFICES
TIM LAVENDER

TELEPHONE (606) 376-2233
FAX # (606) 376-5146

BOX 69 COURTHOUSE SQUARE
WHITLEY CITY, KENTUCKY 42653

January 9, 1997

RECEIVED

JAN 13 1997

GENERAL COUNSEL

Public Service Commission
Attn: John Steffen
P.O. Box 615
Frankfort, KY 40602

RECEIVED

JAN 13 1997

**PUBLIC SERVICE
COMMISSION**

RE: McCreary County Water District
Water System Extensions

Dear Mr. Steffen:

This letter is written pursuant to our telephone conversation of this date.

You are aware that the McCreary County Water District desires that its initial project application (line and one tank at Sawyer) be approved pursuant to KRS 278.023. I attach a copy of a letter from Monarch Engineering to me and to the Bond Council in support of this.

The McCreary County Water District desires this application to be immediately approved because it has received approved bids for the lines and one tank that have been accepted. A delay in approving the application will cause us problems with the successful bidders due to the rise of the prevailing wage rate.

The District will file an amended application for approval of the separate project involving two additional tanks.

Thanks.

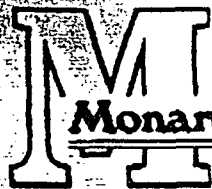
Very truly yours,



Tim Lavender

TL:rs

cc: Monarch Engineering Inc.



Monarch Engineering, Inc.

January 8, 1997

Mr. Tim Lavender
Hatfield & Lavender
P.O. Box 69
Whitley City, KY 42653

Re: McCreary County Water District
Water System Extensions

Dear Mr. Davis:

Please be advised that the McCreary County Water District is preparing to construct a water system extension and build one water storage standpipe. Bids were recently accepted by the Water District to perform this work. In addition, bids were received but rejected for the construction of two elevated water storage tanks. The work regarding the two elevated water storage tanks is expected to be redesigned and bids are planned to be accepted by the Water District within the next two months.

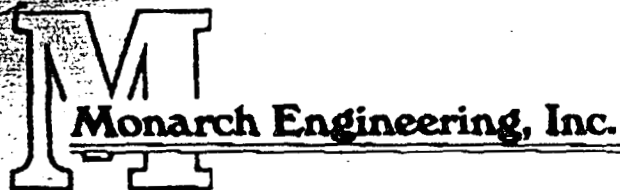
As you may recall, the initial development of this project consisted of providing service to those customers in the Sawyer, Indian Knob, and Nevelsville areas, and it was to be financed by Rural Development. Once the Rural Development's Letter of Conditions was issued, the Water District was petitioned by the McCreary County Fiscal Court to accept funds to construct the water storage tanks. These funds were in the form of a Community Development Block Grant through a special issue to the County as a result of the County's designation as an Enterprise Community.

I trust that this information will help to clarify the situation regarding the decision of the Water District to build the water system extensions now, and to build the water storage tanks at a later date.

Should you need additional information, please advise.

Sincerely,

David M. Bowles, P.E.



January 8, 1997

Mr. Bill Davis
Harper, Ferguson & Davis
1730 Meidinger Tower
462 South Forth Avenue
Louisville, KY 40202

Re: McCreary County Water District
Water System Extensions

Dear Mr. Davis:

Please be advised that the McCreary County Water District is preparing to construct a water system extension and build one water storage standpipe. Bids were recently accepted by the Water District to perform this work. In addition, bids were received but rejected for the construction of two elevated water storage tanks. The work regarding the two elevated water storage tanks is expected to be redesigned and bids are planned to be accepted by the Water District within the next two months.

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I trust that this information will help to clarify the situation regarding the decision of the Water District to build the water system extensions now, and to build the water storage tanks at a later date.

Should you need additional information, please advise.

Sincerely,

A handwritten signature in dark ink, appearing to read 'David M. Bowles', is written over a horizontal line.

David M. Bowles, P.E.



United States
Department of
Agriculture

Rural Economic
and Community
Development
Service

771 Corporate Drive, Suite 200
Lexington, KY 40503-5477
(606) 224-7336
TTY: (606) 224-7422

December 10, 1996

Mr. Raymond Taylor, Chairman
McCreary County Water District
Whitley City, Kentucky 42653

GENERAL COUNSEL

JAN 14 1997

RECEIVED

DEC 18 1996

RECEIVED

Re: Letter of Conditions dated August 7, 1995

JAN 14 1997

Dear Mr. Taylor:

PUBLIC SERVICE
COMMISSION

This letter shall serve as Amendment No. 1 to your Letter of Conditions dated August 7, 1995. The purpose of this Amendment is to revise the total project cost due to an increase in funding from the Department of Housing and Urban Development (HUD) Community Development Block Grant.

The third paragraph on Page One is revised to read as follows:

"This letter is not to be considered as loan or grant approval or as a representation as to the availability of funds. The docket may be completed on the basis of an RUS loan not to exceed \$390,000, an RUS grant not to exceed \$374,000, and a Department of Housing and Urban Development (HUD) Community Development Block Grant (CDBG) of \$643,700."

Paragraph numbered "20" is revised to read as follows:

"20. Cost of Facility:

Breakdown of Costs:

Development	\$ 1,111,700
Land and Rights	5,000
Legal and Administrative	50,000
Engineering	120,000
Interest	25,000
Contingencies	<u>106,000</u>
TOTAL	\$ 1,417,700

Financing:

RUS Loan	\$ 390,000
RUS Grant	374,000
HUD-CDBG	643,700
Applicant Contribution	<u>10,000</u>
TOTAL	\$ 1,417,700"


Paragraph numbered "23" is revised to read as follows:

"23. Commitment of HUD Grant:

This Letter of Conditions is issued contingent upon a firm commitment being in effect prior to advertising for construction bids for the HUD Grant in the amount of \$643,700."

All other provisions of the referenced Letter of Conditions remain in full force and unchanged.

Sincerely,


 THOMAS G. FERN
 State Director
 Rural Development

Enclosures

cc: Rural Development Manager - London, KY
 Community Development Manager - Somerset, KY
 Lake Cumberland ADD - Russell Springs, KY
 Tim Lavender - Whitley City, KY
 Harper, Ferguson and Davis - Louisville, KY
 Monarch Engineering - Columbia, KY
 PSC - ATTN: Claude Rhorer - Frankfort, KY